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ABSTRACT

This report focuses on the financial aspects of child care from the perspective of families and government. The need for affordable child care in the Southern states is illustrated in a series of state-by-state charts and graphs. Information on the percentage of low-income families that receive help paying for child care in each state is also included. The report also goes beyond this story of need to demonstrate that child care subsidies can actually pay for themselves in real dollars returned to the government through taxes; in short, public funds invested in child care can also be an important economic development strategy. Data are presented as follows: (1) child care is an essential support for working families; (2) percentage of working mothers in southern U.S. states; (3) child care is expensive; (4) low-income families cannot afford to work without subsidized child care; (5) for single parents the cost of child care can be crippling; (6) most families do not have access to inexpensive child care provided by "kith and kin"; (7) too often child care subsidies are limited to families on welfare; (8) investing in child care is a key economic development strategy; (9) publicly funded child care pays for itself; and (10) employers benefit from offering child care support. (EV)

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# Child Care in the Southern States:
## *Expanding Access to Affordable Care for Low-Income Families And Fostering Economic Development*

by
Louise Stoney

for
The Southern Institute on Children and Families
April 26, 2000

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# INTRODUCTION

Family life has changed dramatically in the past fifty years. Most mothers work—even those with very small children—and a majority of these women provide half or more of their household income. This trend is even more pronounced in the southern states, which tend to have more working mothers than the national average. And contrary to popular belief, most families do not have friends or relatives available to provide free or inexpensive care for their children while they work. In short, child care is an essential support for working families.

> ***What is Child Care?***
>
> Throughout this report, the term child care is used as shorthand to refer to a range of services that families use to care for their children and encourage early learning. This includes services provided by child care centers, family child care homes, Head Start and prekindergarten programs, before-and-after-school programs and activities, summer camps for school-age children, and informal child care provided by relatives, friends and neighbors. Supporting families who chose to stay at home with their own children is also an important form of child care.

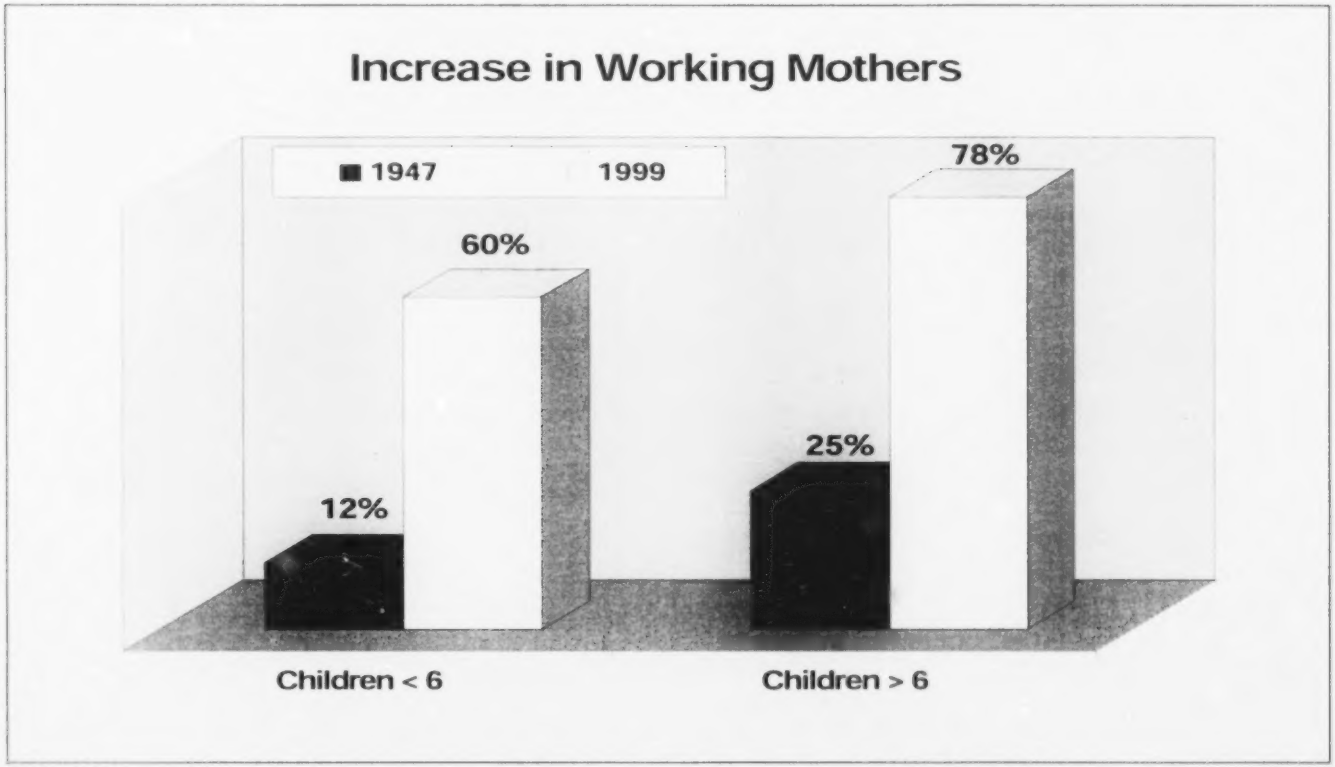
Welfare reform initiatives aimed at putting more women into the workforce have fueled the demand for child care. So has a strong economy. Employers are seeking new entrants into the workforce, and mothers with young children will continue to play a significant role. But most new jobs are in the service industry and many pay only slightly higher than minimum wage. Even when both parents work, young families often find that they can barely break even. Child care is expensive. In all of the southern states, a young family with two wage earners at minimum wage could easily spend a third of their gross pay on child care. In some states the cost is much higher.

Between these two realities—changing families and an increased focus on work-- there exists a giant gap. Neither government nor the private sector has provided the child care resources needed to make it possible for many low-income families to find work and stay employed.

This paper is designed to focus on the financial aspects of child care from the perspective of families and government. The need for affordable child care in the southern states is illustrated in a series of state-by-state charts and graphs. Information on the percentage of low-income families that receive help paying for child care in each state is also included. But the paper goes beyond this story of need to demonstrate that child care subsidies can actually pay for themselves in real dollars returned to the government through taxes. In short, public funds invested in child care can also be an important economic development strategy—one that creates jobs, generates tax dollars, and helps to grow the economy.

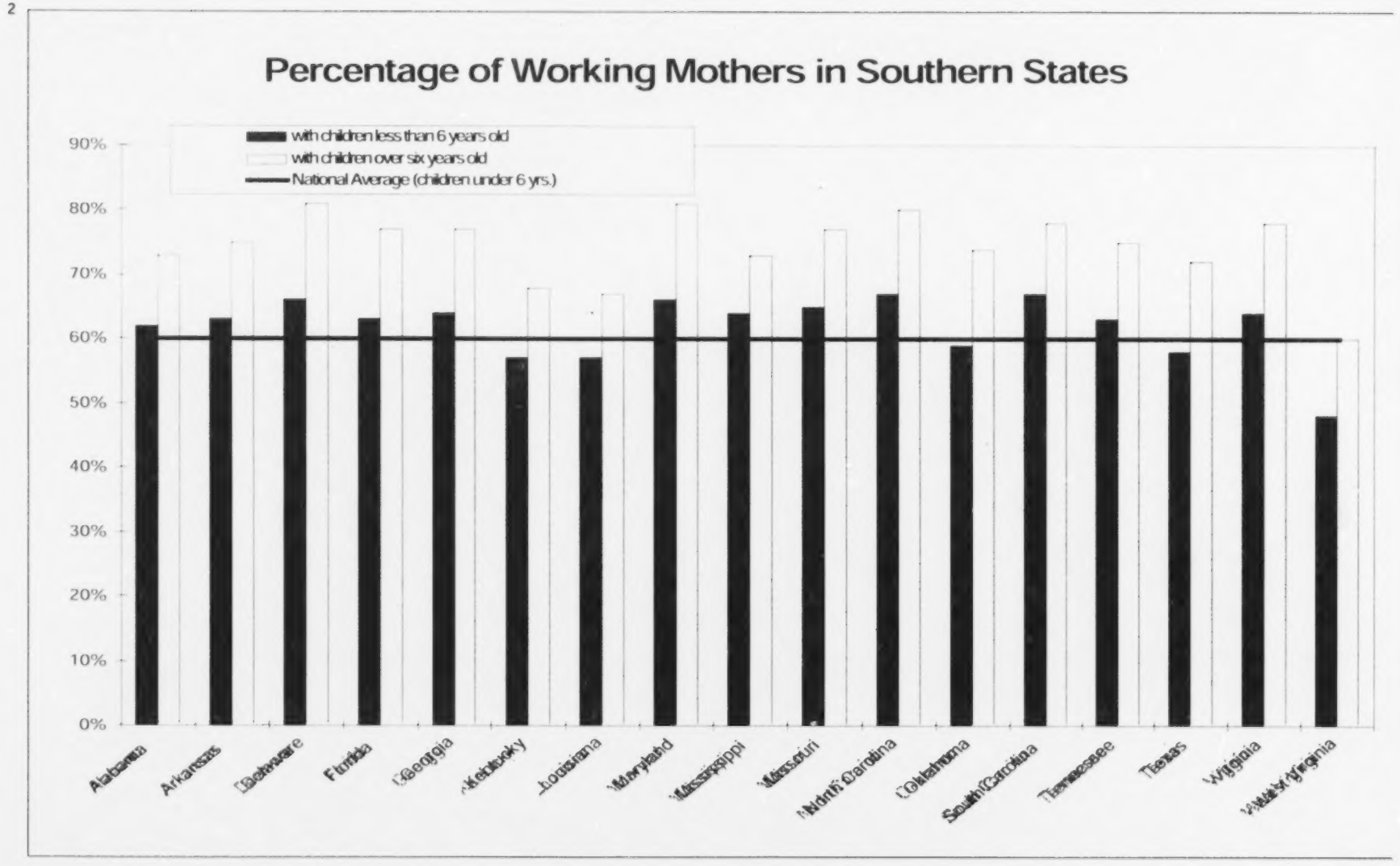
# CHILD CARE IS AN ESSENTIAL SUPPORT FOR WORKING FAMILIES

Most families no longer have a parent or family member who is at home and available to care for children. This is especially true for low-income families, where every adult must work.




Today, three out of five mothers with children younger than six, and almost eight out of ten women with children over six, are in the workforce—double the number of working mothers twenty years ago. These are national averages. The number of employed women with preschool children is even higher in most southern states (14 out of 17 southern states exceed the national average). [1]

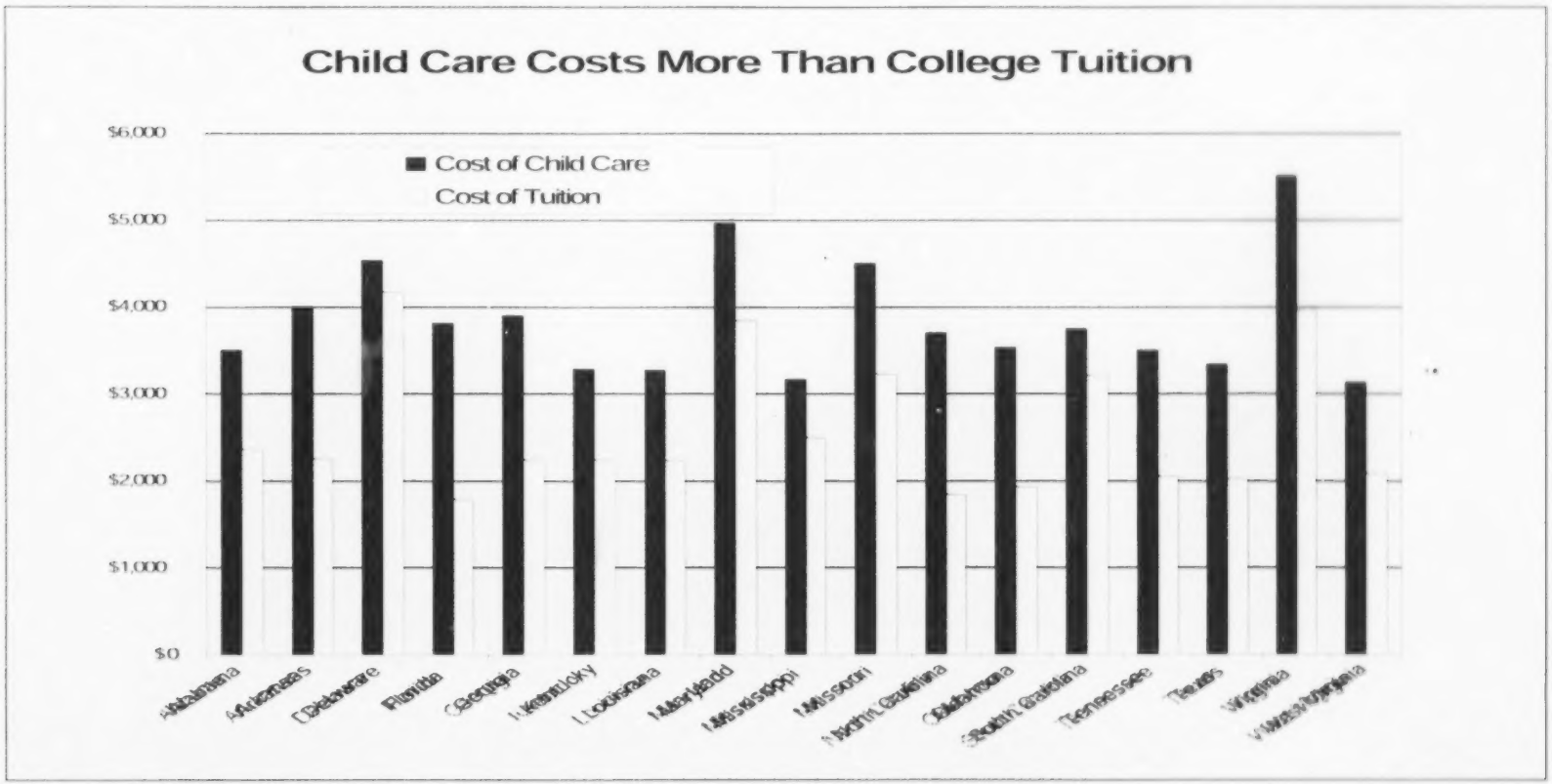
[1] National Council of Jewish Women, 1999. ***Opening a New Window on Child Care: A Report on the Status of Child Care in the Nation Today***. New York, New York: NCJW.




[2] Adams, G. and Schulman, K. May 1998. ***The South: Child Care Challenges.*** Children's Defense Fund: Washington, D.C.

# CHILD CARE IS EXPENSIVE

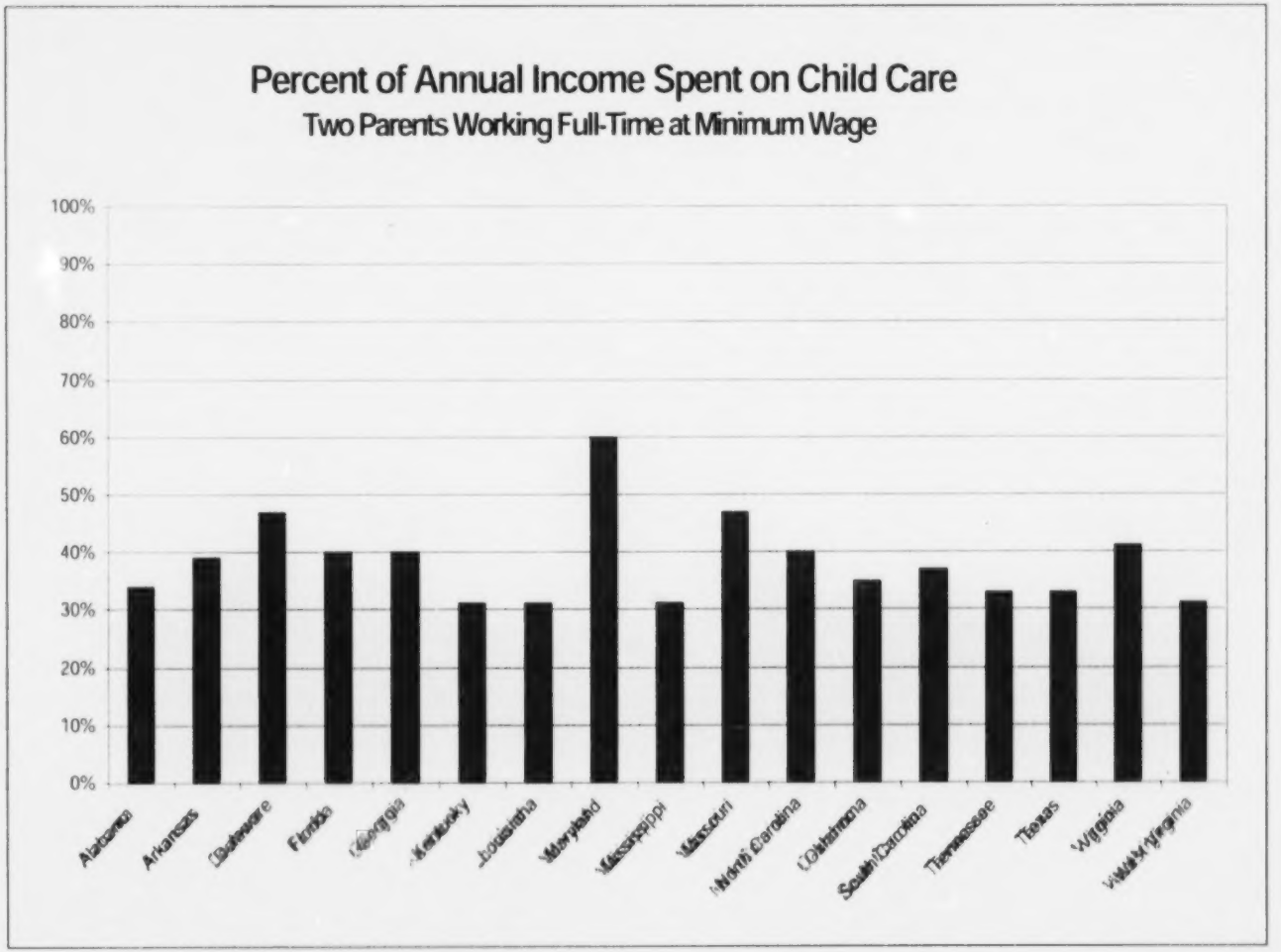
Child care is, on average, the third largest expense after housing and food for all families with preschool age children.[3] While recent census data are not yet available, 1993 data clearly underscore the high cost of child care. In that year the average child care expenditure among all families with a preschool-aged child was $4,108 per year. In each of the seventeen southern states, the annual cost of enrolling a four-year-old in a full-time child care center is higher than public college tuition in that state. [4]




[3] National Council of Jewish Women, 1999. ***Opening a New Window on Child Care: A Report on the Status of Child Care in the Nation Today***. New York.
[4] Adams, G. and Schulman, K. May 1998. ***The South: Child Care Challenges.*** Children's Defense Fund: Washington, D.C.

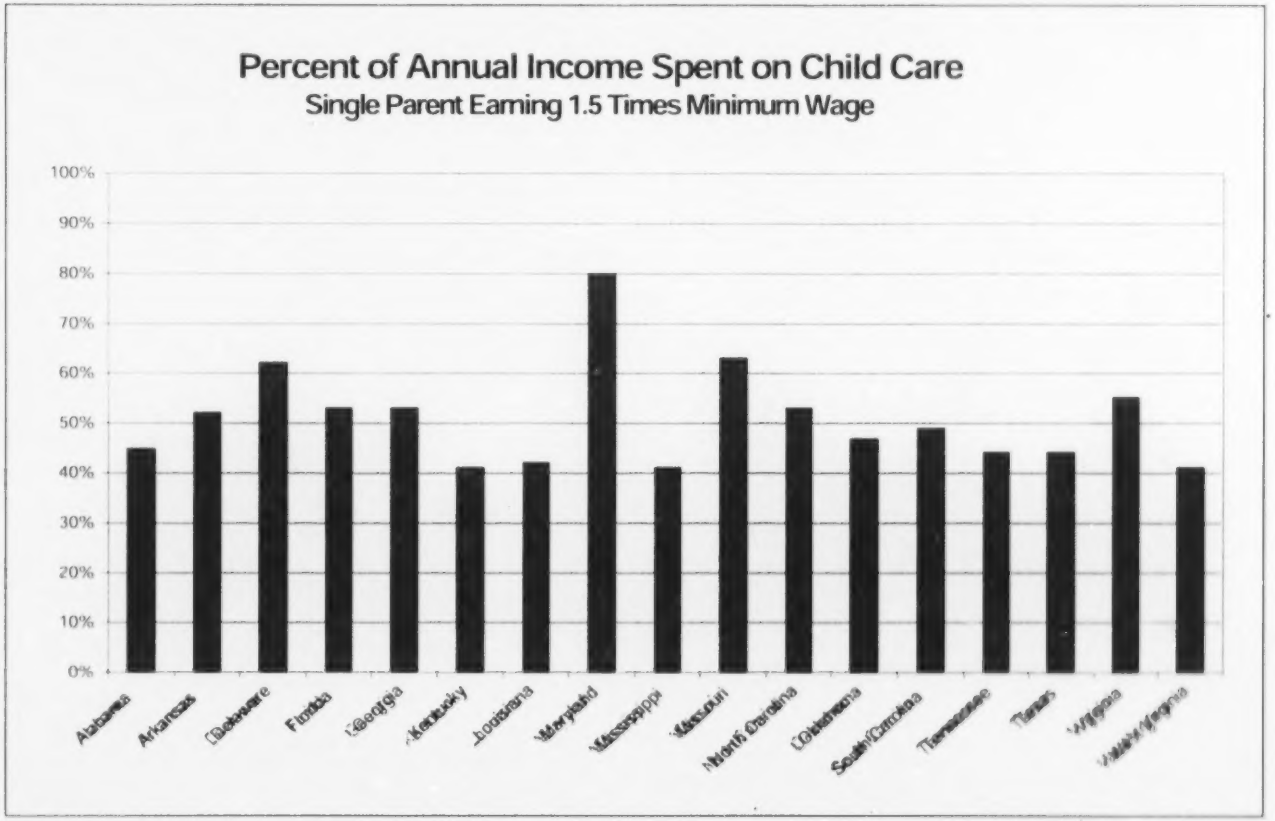
# LOW-INCOME FAMILIES CANNOT AFFORD TO WORK WITHOUT SUBSIDIZED CHILD CARE

For a family earning minimum wage ($21,400 before taxes if both parents work full-time) the cost of child care can be a serious barrier to work. Without help in paying for care, a minimum wage family in the states of Florida, Georgia, North Carolina, or Virginia could spend about 40% of their income to purchase center-based care for an infant and a four-year-old child. Such a family would have to spend 33% of their income to purchase similar care in Texas, 47% of their income in Delaware, and 60% of their income in Maryland.[5]




[5] Adams, G. and Schulman, K. May 1998. ***The South: Child Care Challenges***. Children's Defense Fund: Washington, D.C. (Expenditure estimates are based on the average price of care for an infant and a 4-year-old in a child care center.)

# FOR SINGLE PARENTS THE COST OF CHILD CARE CAN BE CRIPPLING




Without another adult in the home to help transport children or care for them in a pinch, single parents typically use more hours of child care than two-parent households. For these families, the high cost of child care can be crippling. In Florida, Georgia, or North Carolina, a single parent earning a good salary in the service industry -- one and one-half times the minimum wage -- could spend 53% of their income to purchase center-based care for an infant and a four-year old child. Similar care could consume 55% of their income in Virginia and 63% in Missouri.[6]

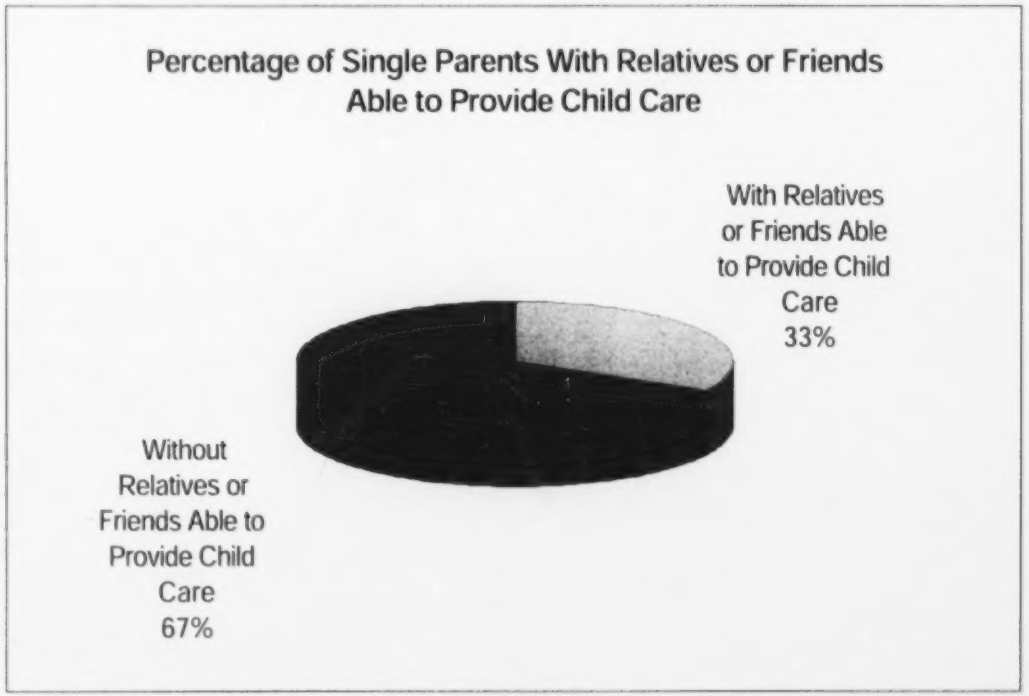
[6] Adams, G. and Schulman, K. May 1998. ***The South: Child Care Challenges.*** Children's Defense Fund: Washington, D.C. (Expenditure estimates are based on the average price of care for an infant and a 4-year-old in a child care center.)

# MOST FAMILIES DO NOT HAVE ACCESS TO INEXPENSIVE CHILD CARE PROVIDED BY "KITH AND KIN"

A common misconception is that many parents can use free child care provided by relatives or friends, who are often referred to as "kith and kin". But most families do not have kith and kin available to care for their children, and many of those who do must pay these friends and relatives to care for their children.

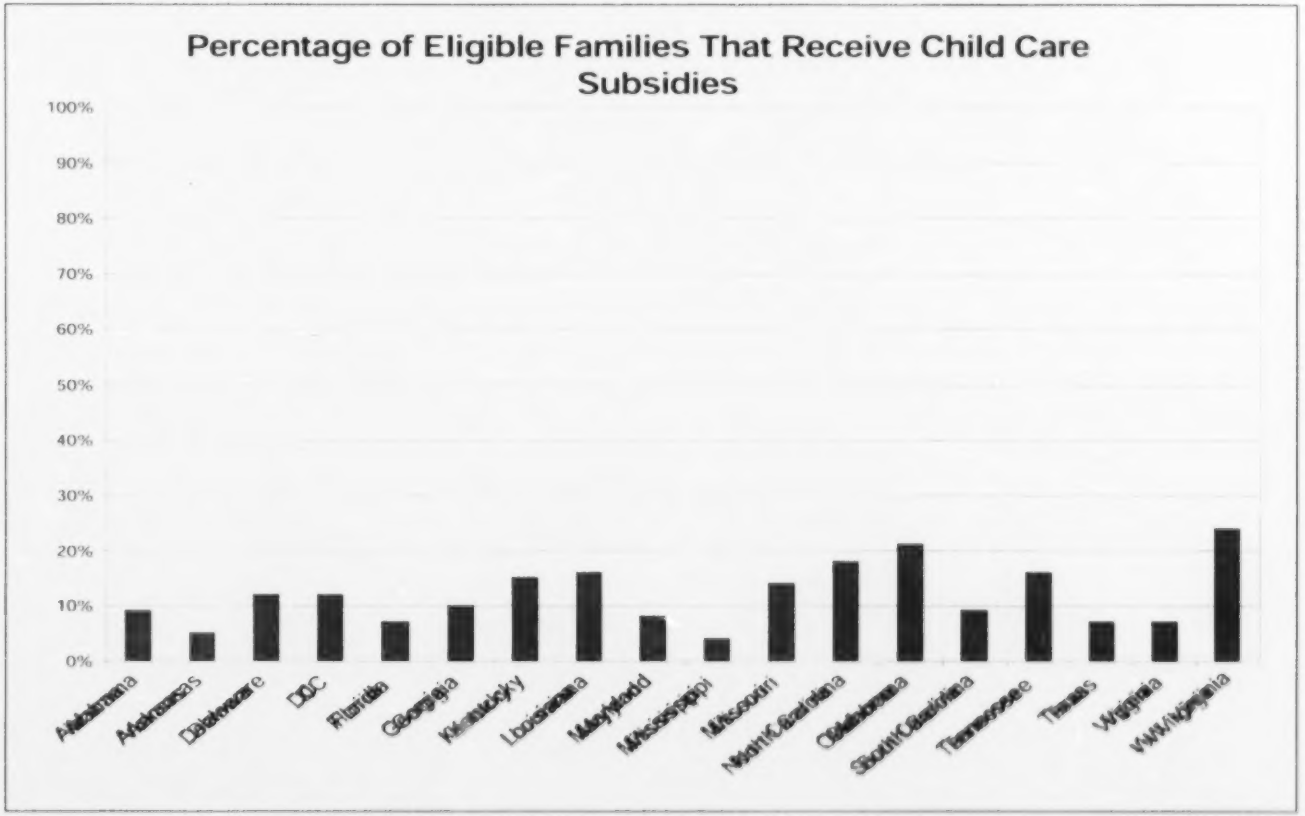
A study of welfare recipients in Illinois found, for example, that 67% of single parents did not have relatives or friends available to provide inexpensive or free care. [7]

Census data indicates that, on average, about a quarter of American families use child care provided by relatives (other than a parent).[8] A national study of child care arrangements of families in the United States found that about a third of employed mothers who rely on relatives to care for their children while they work paid their relatives for that care.[9]


Percentage of Single Parents With Relatives or Friends Able to Provide Child Care
With Relatives or Friends Able to Provide Child Care 33%
Without Relatives or Friends Able to Provide Child Care 67%

[7] Seigel, G. and Loman, A. 1991. ***Child Care and AFDC Recipients in Illinois***. Illinois: Illinois Department of Public Aid.
[8] Caspar, Lynne M. November 1997. ***Who's Minding Our Preschoolers? (Fall 1994 Update)***. US Department of Commerce, Current Population Reports. Washington DC: Bureau of the Census.
[9] Hofferth et al. 1990. National Child Care Survey. Washington DC: The Urban Institute Press.

# TOO OFTEN CHILD CARE SUBSIDIES ARE LIMITED TO FAMILIES ON WELFARE

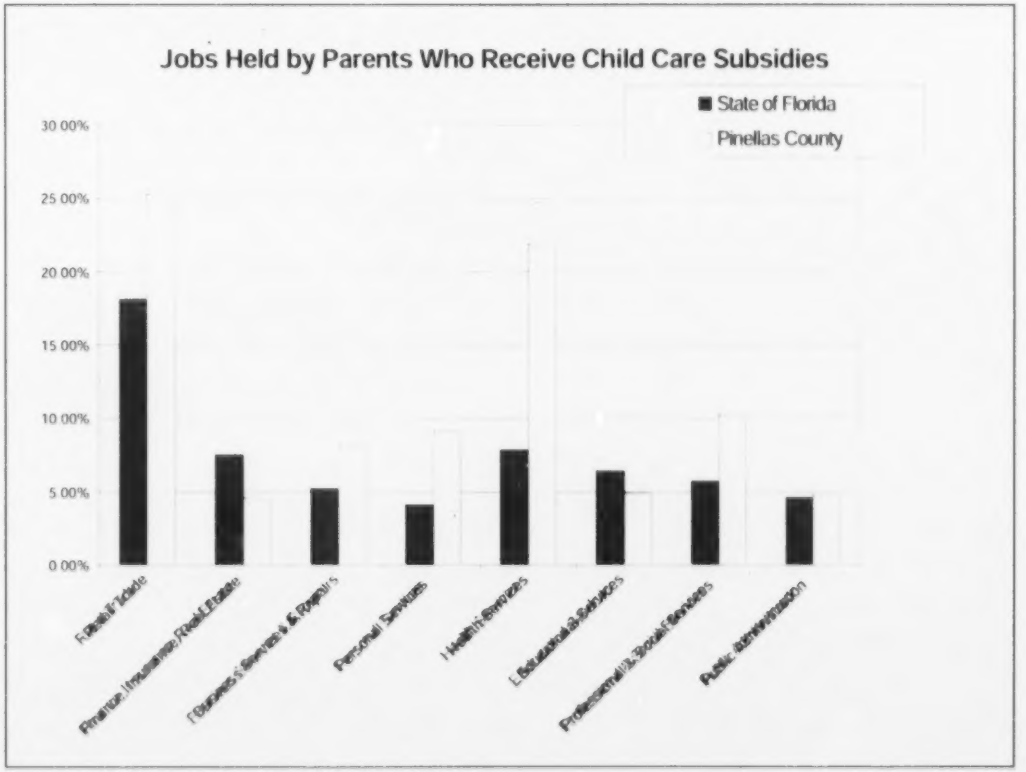



Experience with welfare reform has taught us that subsidized child care is a vital support for families who leave welfare to enter the workforce. Most states now make sure that these families receive help paying for child care. But many hard-working families who have never applied for welfare receive only limited help,[10] and are often offered little more than a place on the child care subsidy waiting list. Families should not be forced to apply for welfare in order to receive help to pay for child care.

[10] State by state data from U.S. Department of Health and Human Services Administration for Children and Families. October, 1999. ***Access to Child Care for Low-Income Working Families.*** Vienna, VA: National Child Care Information Center

# INVESTING IN CHILD CARE IS A KEY ECONOMIC DEVELOPMENT STRATEGY

In many ways, the economic expansion that is currently occurring in the United States has been possible because of dual-income families. And it is child care that has made it possible for families to work. Subsidized child care is an especially important support for the service industry. Comprised largely of small businesses with jobs at hourly wages, the service industry is the fastest growing employment sector in the country. By making subsidized child care available to the parents who assume low-wage, entry-level jobs, government is supporting the service industry itself (which could not grow without a strong influx of new workers) as well as the parent (who could not afford to take an low-wage, entry-level job without help in paying for child care.)




Research in Florida recently demonstrated that a significant percentage of the individuals who are employed by fast food restaurants, grocery stores and other retail trade establishments, nursing homes, and temporary agencies, receive child care subsidies.[11]

But child care is more than a support for working families—it is an industry in and of itself, one that creates new jobs and invests money in the local economy. In Florida, more than $2.5 billion a year is spent to purchase child care. In North Carolina, a state where families and government collectively spend about $1 million a year to purchase child care, nearly 35,000 individuals work in licensed child care programs.

[11] Lee, C., Ohlandt, S., and Witte, A. June 1996. ***Parents Receiving Subsidized Child Care: Where Do They Work?*** Department of Economics, Wellesley College, Department of Economics Florida State University, National Bureau of Economic Research.

# PUBLICLY FUNDED CHILD CARE PAYS FOR ITSELF

A recent study conducted in North Carolina demonstrated that the child care subsidies made available to low-income families paid for themselves almost immediately, and in real dollars returned to the government through taxes on family earnings and employment and taxation of the child care industry.[12]

| Net Monthly Return on Government Investment in Child Care Subsidy | | | | |
|---|---|---|---|---|
| Family | A | B | C | D |
| Annual Earnings From Employment | $10,000 | $15,000 | $20,000 | $0 |
| Monthly Earnings from Employment | 848 | 1,255 | 1,662 | 0 |
| | | | | |
| Family Tax Liability | 145 | 210 | 328 | 54 |
| Family Employer Tax Liability | 65 | 95 | 128 | 0 |
| Child Care Center Tax Liability | 46 | 46 | 46 | 0 |
| Total Monthly Family Tax Contribution | 256 | 351 | 502 | 54 |
| | | | | |
| TANF & Food Stamps | 0 | 0 | 0 | 549 |
| Child Care Subsidy | 249 | 212 | 175 | 0 |
| Earned Income Tax Credit | 126 | 92 | 36 | 0 |
| Total Monthly Government Support | 375 | 304 | 211 | 549 |
| | | | | |
| Net Return on Investment in Families | (119) | 47 | 291 | (495) |
| Net Return Without Earned Income Credit | $7 | $139 | $327 | ($495) |

[12] Rohacek, M., Russell, S., December 1996. ***Child Care $ubsidy: An Investment Strategy for North Carolina***. Chapel Hill, N.C.: Day Care Services Association.

# EMPLOYERS BENEFIT FROM OFFERING CHILD CARE SUPPORT

Employers who offer child care report higher worker morale, reduced absenteeism, increased productivity, and lower turnover. [13] A new Treasury Department survey of more than 1,100 companies found that more than two-thirds of the employers they surveyed reported that the benefits of child care programs are greater than the costs, or that the programs are cost-neutral. [14]

In a 1995 survey conducted by the Conference Board, many companies reported substantial benefits for offering child care, including:

- 62% reported higher morale
- 54% reported reduced absenteeism
- 52% reported increased productivity
- 37% reported lower turnover

A few employers are offering substantial child care benefits. Bank of America, for example, has developed a unique employee benefit called Child Care Plus. Employees who work at least 20 hours a week, need child care to work, have an annual base salary under $30,000 and an annual family income under $60,000 are eligible to participate. Based on their child care expenses, these employees may receive up to $152 per month per child in addition to their regular pay. Bank of America also offers benefits for employees with higher wages (as a Dependent Care Assistance Plan), as well as on-site and/or back-up child care in some locations. Turnover among participants in Child Care Plus is half that of comparable Bank of America Employees who do not use the program.

Con Agra Refrigerated Foods has established a child care initiative tailored to meet the needs of workers who earn between $6 and $7 per hour. Since most Con Agra employees work in shifts and live in rural areas, this employer has established partnerships with Head Start/child care agencies in several communities. Con Agra makes a contribution to help cover the cost of expanding the center's capacity and/or hours of service. The company also pays a portion of the weekly cost of care for each of its employees.

But not all employers are able to make child care investments comparable to those made by Bank of America and Con Agra. In 1995 less than one percent of revenues for child care and early education came from the private sector.[15] Increasingly, employers are learning that the most effective way to support the child care needs of their employees is in partnership with government. Florida has developed a successful initiative, called the Child Care Partnership, which offers matching funds to employers who help subsidize the cost of child care for the low-income individuals they employ.[16]

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[13] Parkinson, Deborah. Winter, 1995. ***Work Family Roundtable: Child Care Services.*** New York City: The Conference Board.

[14] U.S. Department of the Treasury. 1998. ***Investing in Child Care: Challenges Facing Working Parents and the Private Sector Response***. Washington, DC: U.S. Department of the Treasury.

[15] Stoney , L. and Greenberg, M. 1996. "The Financing of Child Care: Current and Emerging Trends." In ***The Future of Children,*** Vol . 6, No. 2.

[16] For more information about the Florida Child Care Partnership, see the profile in ***Financing Child Care in the United States***, which is available at www.earlychildhoodfinance.org.

# CONCLUSION

This paper has focused on child care as a key support for low-income working families and as a new economic development strategy for states. But child care plays another important role: offering children the guidance, support and structure they need to become productive adults. We now have scientific evidence that early brain development affects a child's intellectual and emotional development for years to come. A baby's brain contains 100 billion brain cells—the most it will ever have. Attentive care and education in the early years shapes the development of a child's brain. ***Time*** magazine summarized the issue this way: "...good, affordable child care is not a luxury or a fringe benefit for welfare mothers or working parents but essential brain food for the next generation...never again will the brain be able to master new skills so readily or rebound from setbacks so easily."[17]

The bottom line is that today's children are tomorrow's workers. Quality early care and education in the preschool years can greatly enhance a child's lifetime potential. But all too often children from poor families are denied this essential "brain food"; denied the opportunity to learn and grow at a time in their lives when careful attention from adults matters the most. Each of the seventeen southern states has made substantial financial investments in the elementary, secondary, and higher education systems. Yet when these investments are compared to child care the results are startling. Florida, which has made significant investments in children, still spends 23 times more on higher education than on child care and early learning. Texas spends 43 times more on higher education. Virginia spends 121 times more. And higher education spending in Mississippi is 636 times what the state spends on child care.[18]

Children whose parents cannot afford child care are often left without the guidance and supervision they need at a crucial time in their lives. Friends, relatives or older siblings may be willing and able to help out from time to time, but these arrangements often fall apart or vary from day to day. All children need consistency, stability, and careful attention from adults. All children need opportunities to learn when their brains are at peak performance. For children from low-income families, child care subsidies make these opportunities possible.

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[17] ***Fertile Minds***, Time Magazine, February 3,1997.
[18] Adams, G. and Schulman, K. May 1998. ***The South: Child Care Challenges.*** Children's Defense Fund: Washington, D.C.